

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7057

BILL NUMBER: SB 274

DATE PREPARED: Jan 5, 2001

BILL AMENDED:

SUBJECT: Clean Manufacturing Tax Credits.

FISCAL ANALYST: Chris Baker

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues			(10,000,000)
State Expenditures			
Net Increase (Decrease)			(10,000,000)

Summary of Legislation: This bill establishes the Clean Manufacturing Income Tax Credit Board. The bill provides that a taxpayer is entitled to a credit against the taxpayer's state income tax liability if the taxpayer is awarded a credit by the Board for a qualified material substitution expense or a qualified clean manufacturing investment. It provides that the amount of credits allowed may not exceed \$10,000,000 in a state fiscal year or \$200,000 in a taxable year for a single taxpayer.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will have administrative expenses to revise tax forms, instructions, and computer programs for the proposed tax credit. These expenses can be covered in their existing budget.

The bill would create the six-member Clean Manufacturing Income Tax Credit Board. The Board would be composed of the heads from the following agencies or their designee: Department of Environmental Management; Department of Commerce; State Budget Agency; Department of State Revenue; Clean Manufacturing Technology Board. Each Board member would be eligible for reimbursement for travel and expenses directly related with a member's official Board duties.

In addition, the Indiana Clean Manufacturing Technology and Safe Materials Institute would be required to assist the Board in carrying out the Board's duties. An administrative fee set by the Institute for the processing of credit applications could cover these costs.

The bill requires the Legislative Council to assign the credit to be audited and evaluated. The Legislative Services Agency can absorb this expenditure within its budget.

Explanation of State Revenues: This bill creates two different credits for which a taxpayer may be able to qualify. The first credit is the Material Substitution Credit. It is awarded as 30% of the certified additional cost of purchasing a qualified material that is substituted for a toxic material. The second credit is the Clean Manufacturing Investment Credit which is based on 30% of the certified cost of the qualified clean manufacturing investment multiplied by either the certified percentage by which a toxic material or generation of an environmental waste is reduced by means of the clean manufacturing investment.

Combined, the credits would have a maximum fiscal impact of \$10 M per fiscal year beginning in FY 2003. The first impact of this credit will occur in FY 2003 since it applies to tax years which begin after December 31, 2001. Additionally, a single taxpayer cannot claim more than \$200,000 in credits in a given tax year. When applying for credit approval, the taxpayer will be required to pay a fee to the Institute in the amount set by the Institute.

If the approved credit amount exceeds the state tax liability of the taxpayer, the taxpayer can carry forward excess to not more than two taxable years. In order to qualify for the credit, any expenditure being considered for the credit must be approved by the Board. If there are filings for this credit after the maximum limit of credits awarded has been reached in a state fiscal year, remaining applicants may have part or all of the qualified investment placed as a credit in the next succeeding state fiscal year up to the total maximum amount of credit allowable or \$200,000. The review of applications for credit in a subsequent state fiscal year shall be made in the order in which the applications are received by the Institute. Taxpayers cannot receive any carryback or refund of any unused credit.

The Institute has worked with 800 to 1,000 taxpayers since January 1994, that have installed measures of clean manufacturing and environmental clean-up according to statutory definitions of clean manufacturing and environmental clean-up. In addition, there are approximately 9,000 manufacturers in Indiana with the SIC classification of 2000 and 3999 that could benefit from either credit if they installed measures approved by the Board.

Income tax revenues are deposited into the Property Tax Replacement Fund and the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Environmental Management; Department of Commerce; State Budget Agency; Department of State Revenue; Clean Manufacturing Technology Board; Clean Manufacturing Technology and Safe Materials Institute; Legislative Council; Legislative Services Agency.

Information Sources: Department of State Revenue; Lynn Corson, Director, Clean Manufacturing Technology and Safe Materials Institute, (765) 463-4749; US Bureau of Census.